

ATHENS WATER AND SEWERAGE COMPANY SA
MANAGEMENT REPORT
OF THE BOARD OF DIRECTORS
FOR THE ANNUAL GENERAL MEETING OF SHAREHOLDERS
FOR THE YEAR ENDED AT 31 DECEMBER 2006

Dear Shareholders,

EYDAP, as a listed company of the Athens Stock Exchange, continued this past year its steady growth as well as its profitable path, strengthening further its leading position in its core business, the water supply and sewerage services. EYDAP set the basis to undertake further business initiatives and agreements for the protection of the environment and the utilization of the renewable energy sources that will reinforce its position on the modern business map. The 2006 year is characterized by the efforts taken for the accomplishment of the company's goals based on a five-year scope, concerning the maintaining and augmenting of the company's earnings, the upgrade of the existing water supply and sewage services, the environmental protection and the corporate modernization.

The main company's concern also for 2006 was the sustainable water resource management so as to cover the customer's needs, as well as the quality and their rational administration.

Moreover, based on the environmental protection and the reassurance of the citizens' quality of life, EYDAP continued to operate and expand the wastewater collection, treatment and disposal system.

During 2006, EYDAP partly accomplished the goals of its 5years investment plan, while maintaining the sense of responsibility towards the company's shareholders and employees. EYDAP incorporated a new investment philosophy having as a main prerequisite the customer satisfaction via top class quality service supply.

STRATEGIC GOAL AND ACTIONS BASED ON A FIVE-YEAR SCOPE 2005-2009

By EYDAP's IPO, the company had announced an eight-year investment program for 2000-2008, based on the Greek State commitment to subsidize it via European Union funds or via the Public Investment Program, by 60% of its capital expenditures.

However, as the aforementioned subsidize was not obtained, the company at the shareholders general assembly on August 2004, set new strategic goals for 2005-2009 and revised its investment program based on its equity and European Union funds financing.

For the implementation of the company's goals, EYDAP focuses on four basic axes of actions:

1. Protection of the Environment-Upgrade of the existing water supply and wastewater infrastructure

- 1.1 Upgrade of the existing water supply infrastructure
 - Construction of new potable water reservoirs,
 - Network replacement and upgrade,
 - Implementation of a pressure management system
- 1.2 Completion of Water Treatment Plant (WTP) renovation,
 - Procedure and equipment upgrade for water treatment facilities
 - Improved security and monitoring systems Modernization of the sewerage network _Solutions for the problems in the combined sewer portion of the network
 - Monitoring of effluent quality throughout the network
 - Network replacement and upgrade
- 1.4 Upgrade of existing Wastewater Treatment Plants (WWTP)
 - Solution to problems concerning odors, sludge disposal, etc
 - Construction of interconnection works between phase A & B sections of Psyttalia WWTP.
 - Utilization of the produced biogas for the production of thermal and electrical power.

2. Increased Company Profitability

2.1 Geographic Expansion

Municipal network acquisition, management of third party networks by concession contracts, Construction of new facilities and networks, such as New WWTPs and new sewerage networks at the northern suburbs of Attica.

2.2 Business Development and New Business Activity.

- Hydroelectric Plants,
- Participation in the Suburb Gas Company by 35% (promotion of natural gas connections),
- Water operator concession contracts abroad,
- Consulting Services
- Real Estate Development Bottling Mineral Water from its own boreholes.

2.3 Reduction of Operational Expenses

- Works for the Co-production of Electric and Thermal Energy.
- Development and implementation of advanced information control systems for the management of personnel overtime and employee health benefit expenses
- Development and implementation of advanced information control systems for the management of employee health benefit expenses

3. Improved Company effectiveness and overall performance

- 3.1 Administrative Restructuring and Modernization of Internal Procedures
- New “Billing & Customer Care” (BCC) system as well as advanced information systems for the budget and cost activity accounting and document management
 - Reorganization and rationalization of business activities
- 3.2 Increased Productivity via implementation of new information systems and employee training.
- Electronic document management
 - Employee training program in new information systems and in business management issues.

4. Increased Levels of Customer Service 4.1 Customer Service Modernization.

- Upgrade and restructuring of the regional commercial offices
 - Creation of new company-client communication channels via the Internet and mail-interconnection with the Citizens Service Centers.
- 4.2 Improved internal procedures and modernization of customer service policies
- Improvements of the 24-hr call center for the customer service (1022)
 - Operation of the reorganized company web-site at www.eydap.gr

NEW IMPORTANT INVESTMENT WORKS IN PROGRESS

EYDAP's scope of works is to contribute in the global efforts for the environmental protection and the saving of resources via the reduction of energy expenses.

During 2006, EYDAP started the construction of the new works that suit the aforementioned purpose.

The construction of the wastewater treatment plant and wastewater network at Thriasio Pedio, as well as the new units for the production of electrical and thermal power at Psyttalia, are the two most important works that are included in EYDAP's investment program.

The works at Thriasio Pedio, when completed, will presumably solve the problems of the residents and local businesses and will contribute actively in the upgrade of the specific area.

In addition, by utilizing the biogas at Psyttalia and converting it into Thermal and Electric power, EYDAP will presumably meet its facilities power needs. Any additional produced power will be supplied to the Public Power Company.

EYDAP plans to deal with water supply problems of Salamina and Markopoulo of Attica by connecting them with its network. The construction of a Small Hydroelectric Plant at Evinos is also under way.

Some important data of the works are listed below:

- Construction of the primary collector sewerage network at Thriasio Pedio (west section). Budget: 22.157.800 €
- Construction of the primary collector sewerage network at Thriasio Pedio (east section). Budget: 15.410.000 €
- Construction of the Wastewater Treatment Facilities at Thriasio Pedio. Budget: 38.433.605 €
- Construction of the co-generation of electric and thermal power plants at Psyttalia. Budget: 23.494.000 €
- Construction of water supply pipeline for Salamina. Budget: 9.436.700 €.
- Construction of a new storage tank and works for its interconnection with EYDAP's network at Markopoulo of Attica. Budget 7.455.600€.
- Construction of a Small Hydroelectric Plant at Evinos. Budget: 2.395.510 €

OPERATIONAL MODERNIZATION OF EYDAP

EYDAP's management put a great effort during 2006 to company's modernization, as well as internal reorganization and improvement of internal operations, in order to elevate EYDAP as an attractive and dynamic company.

- **In the customer service field**, after a thorough analysis of the market data and the customer needs, EYDAP initiated the reorganization and the enrichment of the regional offices with new, for the best area coverage of EYDAP's activities.
- The new Billing and Customer Care System was implemented in all Regional Offices. This system, achieved the interconnection of the involved divisions resulting to a positive cooperation for the improved customer service.
- In accordance with the technological evolution, EYDAP's customers are now able to monitor their bill and settle it via internet. The company's website is fully updated and contains all the information needed by the customer so as to deal with EYDAP (necessary documents, applications etc.). In order for EYDAP to achieve improved customer service needs coverage, a new cooperation with the Agricultural Bank of Greece was initiated, that offers the opportunity to the customers to settle their bill with the minimum expense.

The overall goal, is the intergraded management and the upgrade of all company's services, for the improved customer service by the minimum annoyance, and the more effective work allocation at the regional offices.

- **In the human resources management field**, the intention of the organizational changes, that were planed and implemented via the thorough study of the company needs, was to offer the relative opportunities to some new business activities.
 - The new human resources management and communications techniques as well as the management of personnel overtime, were regarded as of great importance.
 - The continuous education of the employees was also underlined.

The main goal is the employee performance optimization, and the promotion of the belief that all employees are active company members that contribute to its dynamic growth.
- **In the new business activities field**, EYDAP's priority is its geographical expansion. Therefore, EYDAP initiated the incorporation of some municipalities' networks that showed interest in a cooperation, and are under the company's jurisdiction, in order to minimize the problems that arise due to their water supply reinforcement from EYDAP. The plan for the company's expansion to new networks

quantifies geographical, technical and financial factors in advantage of the customers, the shareholders and the company.

- The aforementioned efforts resulted to the recent abalienation of the water and waste water networks of the Municipality of Lykovrisi to EYDAP. The network of Nea Peramos is also afoot to be abalienated while the negotiations for further incorporations continues.
- As far as the crucial issue of the municipalities' debt to EYDAP is concerned, they withhold important funds of 120M€ from EYDAP forming an obstacle to the company's evolutionary path. Therefore, EYDAP is determined to deal with this problem by issuing distress warrants to some municipalities, in order to pursue thoroughly and coordinately the collection of the debt.
 - **In regard to Information Systems**, beyond the already mentioned innovative systems in Customer Service, Budget, Pricing, Document Management and the new features provided in electronic Customer Service via web site, EYDAP has also proceeded to the following actions:
 - Completed the mapping of water and sewage networks in a modern GIS , aiming at workgroups' enhanced efficiency and effectiveness and network proactive maintenance. In addition, EYDAP has scheduled in short-term period an interconnection between GIS and Customer Service in order to achieve maximum service rate at distributed departments.
 - Successfully integrated enhanced quality policies in IT networks, interconnecting remote PCs in several buildings to central database systems, achieving quality improvement in daily operation.
 - Introduced Citrix platform as a basic application infrastructure for remote users, achieving better response rate, rational application management and user's support.
 - Introduced a Disaster Recovery site in order to safeguard important electronic files against physical disaster or unavailability and ensure business continuity.

CORPORATE GOVERNANCE

EYDAP has implemented the Principles of Corporate Governance, according to the Greek legislation in force.

A basic and essential requirement of the Corporate Governance is the internal audit. The EYDAP's division of internal audit is an independent organizational unit that reports to the Board of Directors.

The Division's responsibilities, among others, are:

- To keep track of the implementation and constant observance of the Internal Regulations of Operation and EYDAP's memorandum of association as well as the legislation that concerns the company, especially the legislation for the incorporated companies and for the stock market.
- To report to the Board of Directors about the cases of conflict of interests of the members of the Board of Directors or the company's directors with the company's interests, which are detected during the division's work practice.

EYDAP also operates an Internal Audit Committee that consists of three independent non-executive members of the Board of Directors.

WATER CONSUMPTION

During 2006, total water consumption increased by 3,3%, against a decline of 1,3% in 2005. The average annual growth in the period 2000 – 2006 was 1%. Water Consumption invoiced decreased by 1.4% (+1.9% in 2005). During the last five years the average yearly increase was 0.6%. The increase of total water consumption combined with the small decline of the invoiced consumption resulted in the increase of the unaccounted for water, as percentage in the total consumption at 22.7%, from 19.2% in 2005.

Regarding the basic categories of consumers, a small decline of 0.9% has been observed in the largest category the one of Domestic customers. The second largest category the one of Bulk Water Supply to Municipal Networks has also a decline of 1.2% while a more significant decline of 8.7%% has been observed in the category of Public Services-Municipalities. In the opposite direction the category of Industrial–Commercial customers had a small increase of 1%. The decline of the invoiced water consumption by 4.4 cubic meters was the result of the decline of invoiced consumption in the categories of Domestic customers (-1.7 millions cubic meters), Public Services-Municipalities (-1.8 millions cubic meters) and Bulk Water Supply to Municipal Networks (-0.7 millions cubic meters).

The percentage breakdown of consumption during 2006 presented no significant changes. Domestic customers held 65.03% of total consumption (3-years average 64.6%) while the Bulk Water Supply to Municipal Networks held 18.78% (3-years average 18.80%), the Public Services-Municipalities held 6.28% (3-years average 6.65%), and Industrial–Commercial customers held 6.31% (3-years average 6.41%).

During 2006, total invoiced water consumption, in money terms, decreased by 1.2%, leading to revenues of 225.4M€. The 5-year average annual rise was 3.9 %. The invoiced consumption of Domestic customers remained at the same levels of 2005 (€156m) as also of Industry-Commercial customers (€17m). On the other hand the invoiced consumption of both the Public Services – Municipalities and Bulk Water Supply to Municipal Networks decreased (-8.7% and -1.8% respectively). The biggest increase in a five-year period was noticed in the category of Bulk Water Supply to Municipal Networks (average annual increase 12.6%) and the smallest in the category of Public Services – Municipalities (average annual increase 0.5%). Domestic consumers have an average annual increase of 3.3% for a five-year period.

The average price of water sold for 2006 remained unchanged at 0.72 €. The same price stability prevailed at all categories of customers. The average price for Domestic customers remained at 0.76 € per cubic meter. The lowest price (excluding raw water) continues to be regarding the category of Bulk Water Supply to

Municipal Networks, with an average price of 0.46 €/m³, which corresponds to 61% of the average price for domestic clients. The category of third parties has the highest price, with an average price of 1.04 €/m³, which corresponds to 135.4% of the average price for domestic clients.

However, the category of Bulk Water Supply to Municipal Networks continues to generate disproportional revenues in relation with the amount of water it consumes, which is consumed by their citizens (domestic customers) outside the area of Company's water-supply responsibility. The category of Bulk Water Supply to Municipal Networks consumes 19% of the water invoiced and represents only 12% of sales revenue with extremely low receivables turnover.

FINANCIAL RESULTS

During 2006, company's turnover increased by 3.8% (+€13.3m) reaching €362m compared to €348.7m in 2005. This increase was mainly the result of increases in both water supply and related services revenues of €12.7m (+5.2%) and sewerage services revenues of €2.9m (+3%).

Cost of services decreased by €7.4m (-3.6%) reaching €198.4m from €205.8m in 2005.

All these factors lead to the increase of the gross profit by 14.5% or €20.7m. Gross profit margin reached the 45.2% of turnover from 41% in 2005.

General and administration expenses and Distribution and selling expenses increased by €5.2m and €1,2m respectively, which in a percentage basis were below the increase of turnover (+7% and +4.3% respectively). The increase of General and administration expenses is attributable to the increase of Wages and Salaries by €3.8m. The increase of Distribution and selling expenses is also attributable to the increase of the same expenses by €1.3m

To EBIT margin διαμορφώθηκε στο 14,7% από 11,2% το 2005. EBITDA increased by 18.1% or €11.4m, reaching €74.2m, while EBITDA margin was 20.5% from 18% in 2005. EBIT reached €53.1m from €38.9m in 2005 and the EBIT margin was equal to 14.7% from 11,2% in 2005.

Financial revenues decreased by €0.2m, while financial expenses increased by €0.2 (+4.7%). Total debt at the end of 2006 reached €120m from €101m in 2005.

All these factors, mentioned before, lead to the increase of profits before tax by €14.2m (+38.3%), to €51.2m from €37m in 2005. Income tax of 2006 was €17.8m, and the profits after tax reached €33.3m from €20m in 2005. Net profit margin was equal to 9.2% against a 5.7% in 2005.

DIVIDEND POLICY

The Board of Directors of EYDAP will propose to the Annual General Meeting of Shareholders, which has been scheduled for 1st June of 2007 the distribution of a cash dividend of €0,11 per share, or a total of 11.715.000 €. The proposed dividend is increased by 57% to the one of 2005 and on the basis of the closing price of 28/3/2006 (€7.20 per share) the dividend yield is equal to 1.53%.

INFORMATION REQUIRED ACCORDING TO ARTICLE 11 OF LAW 3371/2005

According to the article 11 of Law 3371/2005 in the present report is attached a supplementary report to the General Assembly of the shareholders_ which contains analytical information with regards to:

- a) Share Capital Structure
- b) Restrictions on the $\sigma\tau\eta$ transfer of the Company's shares
- c) Material direct or indirect participations as these are provided by P.D. 51/1992
- d) Shares affording special control rights
- e) Restrictions in the voting rights
- f) Agreements between shareholders of the Company
- g) Rules for the election and replacement of members of the Board of Directors and amendments to the articles of incorporation.
- h) Responsibility of the Board of Directors for the issuance of new shares or the purchase of treasury shares
- i) Significant agreements that are put into effect, amended or terminated as a result of a change of control following a public offer.
- j) Agreements with members of the Board of Directors or employees of company as a result of a public offer

alatsi, March 28, 2007

The Members of the Board

K.Kostoulas , **Chairman**
Executive Member

A.Vartholomeos , **Chief Executive Officer**
Executive Member

Th.Georgakelos , **Member**
E.Baltas , **Member**
A.Manouris , **Member**
G.Zafiropoulos , **Member**
A.Spiropoulos , **Member**
N.Sigalas , **Member**
A.Giannouli , **Member**
G.Mastraggelopoulos , **Member**
A.Protonotarios , **Member**
K.Galanis , **Member**
E.Moutafis , **Member**